

Message Text

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INFO AMCONSUL MEDAN
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C O N F I D E N T I A L STATE 277124

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E.O. 11652:GDS

TAGS: EFIN, ID

SUBJECT: IRS RULING ON PRODUCTION-SHARING CONTRACTS

REF: JAKARTA 15617

1. OUR INFORMATION CONFIRMS EMBASSY UNDERSTANDING (PARA 2 REFTEL) THAT IRS HAS TURNED DOWN ANOTHER CONSOLIDATION PROPOSAL BY OIL COMPANIES WHICH HAD PRIOR APPROVAL OF GOI. PROPOSAL WOULD HAVE IN EFFECT NEGATED THE FINANCIAL IMPACT ON INDONESIA OF CONSOLIDATION BY MEANS OF AN ADDITIONAL "VARIABLE BONUS" TO HAVE BEEN PAID BY OIL COMPANIES ON TOP OF NORMAL TAXES.

2. HOWEVER, OIL COMPANIES HAVE NOW TAKEN UP AN IDEA
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SUGGESTED SOME TIME AGO BY UNION OIL WHICH WOULD ALLOW COMPANIES TO AMORTIZE EXPLORATION AND DEVELOPMENT COSTS IN INDONESIAN TAXATION SYSTEM AFTER FIELDS HAVE BEGUN TO PRODUCE. IN REVERSAL PREVIOUS PROCESS, THIS CONCEPT HAS BEEN SUBMITTED INFORMALLY TO IRS FOR REVIEW PRIOR TO ENTERING INTO NEGOTIATIONS WITH GOI.

3. IF IRS VIEW IS ENCOURAGING, AS EXPECTED, A TEAM OF
OIL COMPANY LAWYERS EXPECTS TO LEAVE NEXT WEEK FOR

JAKARTA TO SEEK GOI APPROVAL. WE ARE UNAWARE HOW MUCH
OF THIS LATEST PROPOSAL IS KNOWN TO GOI AND RECOMMEND
IT NOT BE DISCUSSED WITH GOI PENDING TAX LAWYERS'
ARRIVAL OR FURTHER GUIDANCE FROM WASHINGTON.
WE UNDERSTAND GEORGE BENSON, CURRENTLY IN INDONESIA,
HAS BEEN BRIEFED BY LAWYERS. VANCE

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